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FOLLOW-UP TO THE REPORT OF THE UNITED NATIONS BOARD OF AUDITORS FOR 2000-2001: STATUS OF IMPLEMENTATION OF RECOMMENDATIONS

Report of the Executive Director

1. Pursuant to decision 97/2 of the Executive Board, the Executive Director wishes to bring to the attention of the Board a progress report on the implementation of the recommendations of the United Nations Board of Auditors on UNFPA for the biennium that ended 31 December 2001 (A/57/5/Add.7). In document A/57/439, the Advisory Committee on Administrative and Budgetary Questions reviewed the report of the Board of Auditors and the corresponding report of the Secretary-General (A/57/416/Add.1).

2. The present document provides an update of the actions taken by UNFPA to follow-up on the recommendations of the Board of Auditors as contained in the report it submitted to the General Assembly at its fifty-eighth session (A/58/114). The paragraphs cited in the annex of the present document correspond to those contained in document A/58/114. Audit issues were also addressed in the annual report on internal audit and oversight activities (DP/FPA/2003/3), submitted to the annual session 2003 of the Executive Board.

Recommendation

3. The Executive Board may wish to take note of the follow-up measures taken or planned in implementing the recommendations of the United Nations Board of Auditors for the biennium 2000-2001, as contained in the annex to document DP/FPA/2004/1.

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Annex

Recommendations of the United Nations Board of Auditors in its report on the accounts of UNFPA for the financial period that ended 31 December 2001

1. **In paragraphs 10 (a) and 33, the Board recommended that UNFPA review the funding mechanism and targets for end-of-service benefits, in conjunction with the United Nations and other funds and programmes.**

In June 2003, UNFPA signalled its intention to UNDP, as the lead agency, to participate in a study to be undertaken by the actuarial agency on behalf of UNDP, UNOPS and UNFPA on funding policies in respect of after-service medical benefits.

2. **In paragraphs 10 (b) and 38, the Board recommended that given the fact that the advance in respect of field accommodation has remained outstanding for eight years, UNFPA should take immediate action to bring the matter to a conclusion.**

UNFPA expects to resolve the matter by the end of 2003, and has set aside funds to cover any outstanding costs.

3. **In paragraphs 10 (d) and 69, the Board recommended that UNFPA (i) ensure that standard terms of reference are agreed between the country office and governmental implementing partners as well as the auditor of nationally executed expenditures and that the audit scope and format is consistent; and (ii) compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the UNFPA Policies and Procedures Financial Manual.**

Due to the staffing constraints experienced in the Audit Services Branch, Division for Oversight Services, UNFPA has not been able to develop a checklist of standard requirements to assist country offices in adhering to the requirements of the Financial Manual. It is anticipated that this recommendation will be addressed in 2004 when new staff have been recruited. In the meantime, during country office management audits, UNFPA has continued to monitor agreement to standard terms of reference. In addition, UNFPA is reviewing the terms of reference for audits in conjunction with its review of the audit plans submitted by country offices and headquarters divisions. Feedback is also provided to country offices on the scope covered in project audit reports and their compliance with requirements.

4. **In paragraphs 10 (f) and 80, the Board recommended that UNFPA quantify the financial effect of audit qualifications made in respect of nationally executed expenditure to evaluate such qualifications against the action plans for reasonableness.**

UNFPA has continued to record in its database the reason for audit qualifications. The quantification of the financial effect will be assessed when additional staff members join the Audit Services Branch.

5. **In paragraphs 10 (h) and 91, the Board recommended that UNFPA create a comprehensive database, which would facilitate implementing a risk-based assessment model.**

A comprehensive risk assessment database will be developed in 2004, when additional staff members join the Audit Services Branch.

6. **In recommendations 10 (j) and 97, the Board recommended that UNFPA immediately conclude service-level agreements with UNDP to ensure that services and costs are defined and to enable UNFPA to be fully accountable for transactions incurred on its behalf.**

Memorandums of understanding comprising service-level agreements have been concluded with UNDP.

7. **In paragraph 17, the Board recommended that UNFPA approach its Executive Board with a view to defining the range of financial assumptions on which the operational reserve should be based. Furthermore, UNFPA should clearly disclose the basis of computing the operational reserve in the notes to the financial statements.**

Discussion between the Executive Board and External Relations Branch (EBERB), Information, Executive Board and Resource Mobilization Division (IERD), and the Division for Management Services took place throughout 2003. EBERB concluded that Governing Council decision 91/36 states clearly that the reserve is calculated on the basis of annual income. Paragraph 19 of decision 91/36 states: "Decides that the level of the operational reserve should be set at 20 per cent of general resources income for each year of the United Nations Population Fund work plan and decides to review the level of the operational reserve every other year." Subsequent biennial reviews of the operational reserve have not resulted in decisions to change the basic method of calculating the operational reserve. UNFPA has amended the notes to its financial statements to disclose the methodology for calculating the operational reserve.

8. **In paragraph 21, the Board recommended that UNFPA make a provision for doubtful collection, which should be appropriately disclosed in the financial statements and notes thereto.**

Provision and disclosure have been made in respect of all pledges not received for 1999 and prior years.

9. **In paragraph 23, the Board recommended that UNFPA disclose investments, in accordance with paragraph 48 (ii) of the United Nations system accounting standards, in the notes to the financial statements.**

Action on this recommendation has been completed.

10. **In paragraph 25, the Board recommended that UNFPA avoid offsetting debit and credit balances in contravention of paragraph 46 of the accounting standards**.

The change in practice will be reflected in the 2002-2003 financial statements.

11. **In paragraph 29, the Board recommended that UNFPA perform regular reconciliations with UNDP records and follow up reconciling items.**

UNFPA verifies, on a monthly basis, reconciling items for each account. UNFPA will eliminate current discrepancies in time for the preparation of the 2002-2003 financial statements.

12. **In paragraph 35, the Board recommended that UNFPA take immediate measures to recover long-outstanding amounts of receivables from staff and consultants.**

The process of analysing accounts receivable and taking corrective action has been ongoing. The Finance Branch is committed to recovering outstanding amounts where possible and taking appropriate accounting action with respect to any long-outstanding receivables identified under miscellaneous accounts receivable from years prior to 2002 ($0.1 million) before the end of 2003.

13. **In paragraph 43, the Board recommended that UNFPA account for all contributions received and should closely monitor trust fund income and expenditure to ensure that it does not obligate expenditure without having sufficient funds available.**

The Finance Branch remains fully responsible for recording income, in addition to reconciling income information internally with the Resource Mobilization Branch, HERD, and externally with the UNDP General Accounting and Contributions Section. The Finance Branch reviews activity in the bank accounts held by J.P. Morgan Chase Bank in New York on a daily basis and ensures that UNDP provides monthly reconciliation of bank balances.

14. **In paragraph 59, the Board recommended that UNFPA generate an age analysis to review outstanding advances of nationally executed expenditures with a view to ensuring accountability of implementing partners, taking into account future work plans.**

The Finance Branch is keenly aware of the magnitude of operating fund account balances and has prioritized the reconciliation and rationalization of these balances prior to taking remedial accounting action and the migration to the PeopleSoft Enterprise Resource Planning (ERP) system. The Finance Branch agrees that the use of an ageing report, where appropriate in the PeopleSoft ERP, will provide more management control over the operation of operating fund accounts.

15. **In paragraph 61, the Board recommended that UNFPA include in its monitoring tools details of the appointment of auditors of nationally executed expenditure and to use such details to verify compliance with the Financial Manual.**

The name of the audit firm has been included in the database. Starting in 2004, UNFPA will also include information on the entity responsible for appointing auditors.

16. **In paragraph 63, the Board recommended that UNFPA include in its directives on nationally executed expenditure, specific procedures and predetermined criteria to ensure that auditors of the required independence, integrity and technical competence are appointed and that compliance with those directives is monitored by the country office.**

UNFPA is currently developing criteria to guide country offices in the selection of auditors and expects to complete action on this recommendation in 2004.

17. **In paragraph 72, the Board recommended that UNFPA devote special attention to those country offices that had not submitted audit plans on time, in future audit planning exercises, by requesting those country offices to commence with the planning exercise well in advance of the prescribed deadline. Also, UNFPA headquarters should intensify its follow-up action for country offices that have defaulted in adhering to requirements.**

The Audit Services Branch will continue to urge country offices to submit their 2003 audit plans on time and will send reminders to country offices that do not meet the deadline. It has also enlisted the support of management staff in the geographical divisions in ensuring compliance.

18. **In paragraph 89, the Board recommended that UNFPA adhere, as far as practical and feasible, to the mandatory project evaluation and monitoring procedures as prescribed in its directives. Furthermore, UNFPA headquarters should focus its attention on those projects that have not been subjected to audits of nationally executed expenditure as a means of obtaining adequate assurance, and should also record in the consolidated database details of compensating controls implemented in those country offices where assurance is low.**

Ensuring that compensating controls in the form of project monitoring and evaluation exercises are implemented is integral to the functions of the geographical divisions. The geographical divisions will ensure that this is a key feature of their annual management plans and that it is included in the individual performance plans of concerned staff.

19. **In paragraph 99, the Board recommended that UNFPA ensure that, in concluding the service-level agreements with UNDP, such agreements would enable it to implement and review key controls, such as bank reconciliations.**

Recognizing that UNDP and UNFPA are likely to face a radical change in processes and workflow with the introduction of the ERP system, both parties have agreed to revisit the framework for key controls after the implementation of ERP.

20. **In paragraph 103, the Board recommended that UNFPA headquarters organizational units be tasked with the review and verification of all non-expendable equipment under their control. Furthermore, UNFPA should expedite the transfer of all remaining non-expendable equipment to the coding system.**

The headquarters' renovation exercise has constrained the Procurement and Facilities Management Branch from effectively tracking the location of all non-expendable equipment in UNFPA headquarters. Nevertheless, a full physical inventory will be undertaken during April-May 2004, following completion of the renovation project. The results of the physical inventory will be entered into the new PeopleSoft asset management system.

21. **In paragraph 105, the Board recommended that in order to facilitate effective control over the receipt of all goods and services procured, all UNFPA country offices complete receipt and**

inspection reports within three weeks of delivery of such goods and services and should forward such reports to the headquarters procurement unit, as prescribed in terms of paragraph D.25 of the UNFPA Procurement Manual.

The Procurement Services Section sends regular reminders to country offices to submit receipt and inspection reports. As a result, there has been improvement in the timeliness of these reports. An estimated 75 per cent of reports received do not require additional follow-up. With the implementation of ERP, receipt and inspection reports will automatically be logged and tracked.

22. **In paragraph 107, the Board recommended that UNFPA develop a process for formally recording and monitoring suppliers' performance**.

The Procurement Services Section maintains records of supplier and product failures. During the period January-October 2003, two contracts were terminated due to unsatisfactory performance. Purchases from a third supplier have been put on hold until the supplier corrects a fault in the production line. The Procurement Services Section has also ordered tests and inspections to verify product quality in various locations. In addition, the incidence of pre-shipment inspection has been increased for medical equipment.

23. **In paragraph 114, the Board recommended that UNFPA develop, implement and update on a regular basis, a short- to long-term ICT strategic plan; establish, approve, implement and update on a regular basis a security policy; and compile documented computer programme change control procedures.**

UNFPA will develop an ICT strategy by the end of 2003. In the meantime, a number of activities have been undertaken to ensure the successful implementation of the PeopleSoft ERP in partnership with UNDP and UNOPS. UNFPA, together with UNDP, is planning to formally adopt programme change control procedures from industry leaders in this area. UNFPA is in the process of recruiting an ERP security officer who will oversee this process.

24. **In paragraph 118, the Board recommended that UNFPA develop a fraud prevention plan, including fraud awareness initiatives. In developing the plan, UNFPA should discuss features of it with the Department of Administration of the United Nations and other funds and programmes to obtain the benefit of best practice, where available, in specific or all of the elements being considered.**

UNFPA has been working with UNDP and UNOPS in a joint effort to develop a fraud prevention strategy. In this process, the members of the group follow developments of the United Nations Organizational Integrity Initiative as well as the fraud prevention measures of other organizations. The strategy will be finalized in the first quarter of 2004.